

Message Text

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DEPARTMENT PLEASE PASS TO STR AMBASSADOR DENT .

E.O. 11652: N/A

TAGS: ETRD, EEC, JA

SUBJECT: STEEL TRADE POLICY PAPER

1. FOLLOWING IS TEXT WHICH AMBASSADOR DENT REQUESTED THAT
HEIMLICH PREPARE ON STEEL TRADE POLICY:

2. THE STEEL TRADE POLICY AREA IS VERY VALATILE AT THIS
TIME AND PRESSURES ARE LIKELY TO BUILD IN COMING MONTHS
PARTICULARLY IF ECONOMIC GROWTH DOES NOT PICK UP.

3. DOMESTICALLY, THE STEEL INDUSTRY IS NOW SUFFERING FROM
SETBACKS IN PRODUCTION, SHIPMENTS, EMPLOYMENT, AND PROFITS
FOLLOWING A PERIOD IMPORVEMENT DURING THE FIRST HALF OF
1976. CAPACITY UTILIZATION RATES ARE NOW AT 70-75 PERCENT
COMPARED WITH 90 PERCENT IN MAY. SHIPMENTS IN THE FOURTH
QUARTER WILL LIKELY BE SUBSTANTIAALLY LESS THAN ANY OTHER
QUARTER OF 1976. ABOUT 10,000 STEEL INDUSTRY WORKERS WERE
LAID OFFF BETWEEN JULY AND SEPTEMBER AND THERE ARE MORE
RECENT ANNOUNCEMENTS OF LAYOFFS AND SHUTDOWNS WHICH SUGGEST
MUCH LARGER NUMBERS HAVE BEEN DROPPED FROM PAYROLLS.
PROFITS ARE LIKELY TO DECLINE THIS YEAR, FOLLOWING A LARGE
DROP IN 1975, DESPITE AN INCREASE IN SALES.

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4. AGAINST THIS BACKDROP, US IMPORTS HAVE BEEN CONSIDERABLY HIGHER IN RECENT MONTHS AND HAVE EXHIBITED LITTLE RESPONSE AS YET TO WEAKENED MARKET CONDITIONS IN THE UNITED STATES. IMPORT PENETRATION IN THE THIRD QUARTER WAS ABOVE 14 PERCENT COMPARED WITH 12 PERCENT DURING THE FIRST HALF OF 1976. IT APPEARS THAT IN THE FOURTH QUARTER, IMPORT PENETRATION MAY INCREASE FURTHER AS IMPORTS ORDERED IN A MORE OPTIMISTIC ENVIRONMENT LAST SUMMER, ARE DELIVERED.

5. AS DOMESTIC DEMAND IS NOT EXPECTED TO IMPROVE SIGNIFICANTLY UNTIL THE SPRING OF 1977, THESE DEVELOPMENTS CAN BE EXPECTED TO CREATE GREATER DOMESTIC PRESSURES FOR PROTECTIONIST ACTIONS. THE US STEEL INDUSTRY ALREADY HAS PURSUED A SUCCESSFUL ESCAPE CLAUSE ACTION ON SPECIALTY STEEL AND HAS UNDERTAKEN ACTION UNDER SECTION 301 OF THE TRADE ACT AGAINST THE EC/JAPANESE STEEL UNDERSTANDING AND SECTION 337 AGAINST PREDATORY PRICING BY JAPAN ON STAINLESS STEEL PIPE AND TUBE. THERE IS CONSIDERATION IN THE INDUSTRY OF BRINGING ADDITIONAL ACTIONS WITH RESPECT TO PARTICULAR REGIONAL AND PRODUCT PROBLEMS (E.G. PLATE AND STRUCTURALS ON THE GULF COAST AREA). THE INDUSTRY ALSO HAS FILED ACTIONS UNDER THE COUNTERVAILING DUTY STATUTES WITH RESPECT TO EC BORDER TAXES AND ITALIAN SILICON ELECTRICAL STEEL PRODUCTS AND CHAIN AND IS CONTEMPLATING A CASE AGAINST BRITISH STEEL CORPORATION. THERE MAY WELL BE OTHER DOMESTIC INDUSTRY INITIATIVES PARTICULARLY IF DEMAND CONDITIONS REMAIN DEPRESSED. USG ACTION ON THE VARIETY OF TRADE ACTIONS ALREADY FILED WILL BE REQUIRED DURING 1977 AND MAY WELL SET A PATTERN NOT ONLY FOR STEEL BUT FOR OVERALL TRADE POLICY.

6. THE UNITED STATES IS NOT ALONE IN EXPERIENCING PRESSURES IN THE STEEL AREA. THE EC DOMESTIC STEEL SITUATION IS VERY SERIOUS WITH OPERATING RATES OF 60-70 PERCENT AND A DRAMATIC SHIFT IN ITS STEEL TRADE POSITION (FROM NET EXPORTS OF 27 MILLION TONS IN 1974 TO 7 MILLION TONS IN 1976). AS A RESULT, THE EC HAS EMBARKED ON A NEW EFFORT CALLED THE SIMONET PLAN WHICH WILL ASSIGN LIMITED OFFICIAL USE

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QUARTERLY PRODUCTION

TO FIRMS IN AN EFFORT TO SHARE THE BURDEN OF DSSPO#MARKET CONDITIONS SO THAT PRICES WILL NOT FALL TOO FAR AND LESS EFFICIENT FIRMS WILL NOT GO BANKRUPT. AT THE SAME TIME THE EC IS SIGNALING ITS FOREIGN SUPPLIERS THAT THEY SHOULD BEHAVE RESPONSIBLY IN THE EC MARKET AND NOT TAKE ADVANTAGE

OF THE INTERNAL MEASURES NOW CONTEMPLATED. IT IS NOT CLEAR WHETHER THESE DEVELOPMENTS WILL HAVE A SIGNIFICANT DISTORTING EFFECT ON US TRADE INTERESTS BUT THE POSSIBILITY CERTAINLY EXISTS. HAVING TAKEN THESE INITIAL STEPS, THE EC MAY WELL BE ON THE ROAD TO OTHER ACTIONS WHICH MAY BE QUITE SIGNIFICANT TO US INTERESTS (E.G. IMPORT RESTRICTIONS, SETTING MINIMUM PRICES, EXPORT SUBSIDIES).

7. WORLD SUPPLY AND DEMAND IS LIKELY TO REMAIN IMBALANCED DURING 1977, WITH THE WORLD INDUSTRY OPERATING AT 80 PERCENT OF CAPACITY AT BEST. THIS CAN ONLY AGGRAVATE EXISTING US AND EC PROBLEMS AND INCREASE THE LIKELIHOOD THAT THEY WILL SPREAD TO OTHER COUNTRIES AND PRODUCT AREAS.

8. IN VIEW OF THESE DEVELOPMENTS AND PROSPECTS, IT IS ESSENTIAL THAT THE USG FORMULATE STEEL TRADE OBJECTIVES AND A STRATEGY TO DEAL WITH CURRENT AND LONGER TERM PROBLEMS. AN INTERAGENCY GROUP HAS BEEN WORKING ON LONGER TERM OBJECTIVES FOR THE MTN, IN RESPONSE TO THE PRESIDENT'S DECISION ON MARCH 16, 1976 TO SEEK SECTORAL STEEL NEGOTIATIONS TO DEAL WITH CYCLICAL STEEL TRADE PROBLEMS WHILE LIBERALIZING THE CONDITIONS OF TRADE. PLANS NOW CALL FOR DEVELOPMENT OF A SECTORAL PROPOSAL BY MARCH 1, 1977 (INCLUDING REQUIRED CONSULTATIONS WITH INTERESTED ADVISORY GROUPS). IT MAY BE NECESSARY TO ACCELERATE THE WORK OF THIS GROUP OR TO SUPPLEMENT IT WITH AN EFFORT AIMED AT DEALING WITH MORE IMMEDIATE PROBLEMS.

9. IT IS IMPORTANT ALSO TO WORK CLOSELY WITH OUR MAJOR TRADING PARTNERS IN DEALING WITH CURRENT PROBLEMS AND LIMITED OFFICIAL USE

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DEVELOPING LONGER TERM SOLUTIONS. BILATERAL CONSULTATIONS WITH THE EC AND JAPAN DURING EARLY DECEMBER REPRESENT AN INITIAL STEP. WE SHOULD PAY PARTICULAR ATTENTION TO MAINTAINING THIS DIALOGUE AND MOVING IN A DIRECTION THAT WILL LEAD TO BOTH SHORT AND LONG TERM SOLUTIONS TO PROBLEMS IN STEEL TRADE. HINTON

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